DOW THEORY LETTERS INC.

RICHARD RUSSELL
P.O. BOX 15196
SAN DIEGO CALIFORNIA 92115

Registered with the Securities Exchange Commission

40 Letters per Year — $50.00 Annually

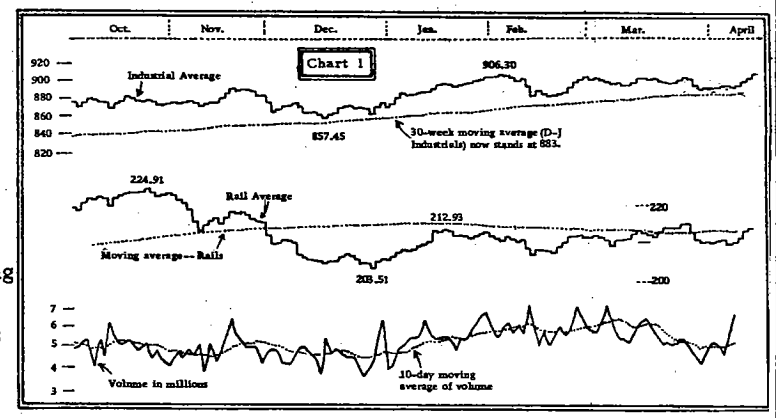
April 13, 1965 Letter 285

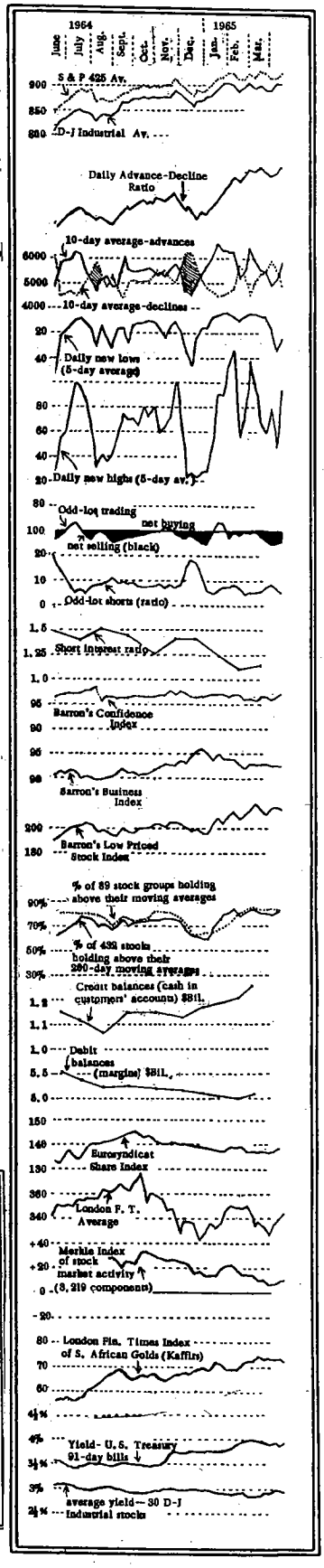
THE MARKET: The Averages recorded their last joint highs on October 20, almost six months ago. Conceivably, that peak could have marked the top of the post-war bull market. But bulls can point to the fact that despite every type of scare news from an expanding Viet Nam war to a fear of British devaluation, the December lows have held. As stated over and over in these Letters, as long as one or both Averages remain above the December lows (857.45 and 203.51), Dow's Theory is saying that the primary trend remains bullish. Furthermore, the longer the Averages hold above the December lows, the higher the total short interest, the more odd-lot selling, the greater the general skepticism, the better the odds that the market has fully discounted the worst — and is preparing for the next important rise. The first suggestion of such an event came last week as Industrials pushed within a few points of their 906.30 bull market high and Rails rebounded towards their 1965 peak of 215.98. Bettering of those two marks would put Rails in position to try for their bull market high of 224.91 (if that mark is surpassed, the primary bull trend will be reconfirmed).

Pessimists can point to the fact that record industrial production and earnings have been unable (for the past six months) to produce new highs in the Averages. They can point to the weekly chart of the D-J Industrials (Chart 2), a chart which shows the Dow breaking below a rising trendline which held inviolate from October, 1962, to the last quarter of 1964. As the Dow "rounds over," claim the bears, it becomes evident that the upward momentum is ebbing, and they draw attention not only to Chart 2 but to the Momentum Index (Letter 282) which on its latest reading has dropped to 108.4, the lowest level since 1963. As a final warning for the bulls, pessimists can show that since 1949 all trading ranges (such as the current one) which followed major advances proved to be major tops — not springboards from which the next advance was to be mounted (this proved to be the case in 1953, 1956-57 and 1961).

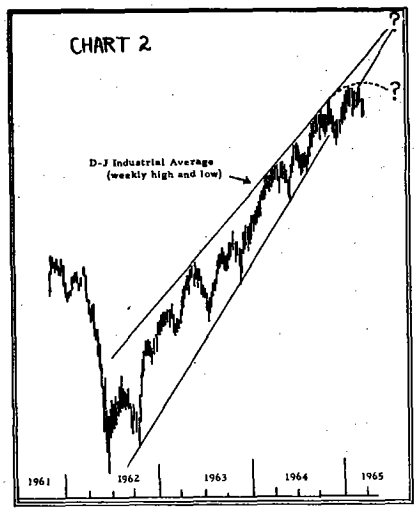
In the face of these conflicting arguments, what are we as investors to think and do? I continue to favor the gold shares and even the silvers, a large position in cash and perhaps 15% to 20% in selected common stocks. I have just reviewed all of my stock recommendations of the past year. On the whole there have been a good sprinkling of winners from Callahan, Burroughs, Rohr, and General Bronze to Foremost, W. T. Grant, Gulf American Land and McCrory. There have been some losers, and some which have been unable to move off what I mistakenly took to be "launching pads." I will admit that I find it more difficult now than ever to come up with common stocks which I like — but I'll keep trying.

The Composite Chart shows the two leading Industrial Averages and the A-D ratio within fractions of their highs for the year. The 10-day averages of advances last week assumed the bullish position above the declines. Daily new highs are impressive while odd-lot transactions stay on the selling side — another hopeful indication. Barron's Confidence Index, however, remains below its high of almost half a year ago. The percentage of stocks and stock groups holding above their moving averages stays at about 82%, and this too is a strong showing. The London Stock Index and the Eurosyndicat Indexes both "topped out" last October, and they both remain bearish. The markets of Australia, Belgium, France, Japan, Holland, Switzerland and W. Germany all appear bearish. France reduced her bank rate from 4% to 3½% last week, and she is obviously attempting to reverse a gathering economic slump. CONCLUSION: The gauges of the U.S. market show no weakness yet. As such, they are confirming




1964
1965
S & P 425 Av.
D-J Industrial Av.
Daily Advance-Decline Ratio
10-day average-advances
10-day average-declines
Daily new lows (5-day average)
Daily new highs (5-day av.)
Odd-lot trading
net buying
net selling (black)
Odd-lot shorts (ratio)
Short interest ratio
Barron's Confidence Index
Barron's Business Index
Barron's Low Priced Stock Index
% of 89 stock groups holding above their moving averages
% of 432 stocks holding above their 200-day moving averages
Credit balances (cash in customers' accounts) $8B.
Debit balances (margins) $8B.
Eurosyndicat Share Index
London F. T. Average
Merrills Index of stock market activity (3,219 components)
London Fin. Times Index of S. African Golds (Kaffirs)
Yield- U.S. Treasury 91-day bills
average yield—30 D-J Industrial stocks

the Dow Theory viewpoint: the bull trend remains in force — the burden of proof rests with the bears.



MONEY: The last Letter contained a discussion of inflation, deflation, devaluation and their potential effects on the investor. What is behind the political, social and economic fears which are being stirred up by the current world monetary pressures?

In order to understand the concern now being expressed in many circles regarding money, it is necessary to dip briefly into history. Whenever money has been stable, societies have been stable; when money has been unstable, societies have collapsed. It takes only a bit of history to illustrate this point. In 301 A. D. the Emperor Diocletian issued his famous price fixing edicts. These decrees lasted for only five years, and by the end of the 4th century money had deteriorated and suspicions had risen to the point where every unit of coinage had to be individually weighed prior to exchange. By the 7th century the weights and measures themselves became so suspect that the use of money as a vehicle of exchange literally ceased to be.

"Under these circumstances," writes Elgin Groseclose in his book Money and Man, "money became extinct, nor was it the only institution that perished; all institutions had perished. There was no government except the sword, there was no law; there were no certain weights and measures. Exchanges were made in kind which men weighed or counted to another, holding the thing to be sold in one hand, the thing to be bought in another. Quoting the words of Antonius Augustus, 'Money had more to do with the decline of the Roman Empire than either the Huns or the Vandals.' "

Again we see the progression from chaotic money conditions to social and political chaos in this quote from The History of Greece by George Finlay: "In reviewing the causes which contributed to the decline of the wealth and the diminution of the population of the Roman Empire, it is necessary to take into account the depreciation of the coinage which frequently robbed large classes of the industrious citizens of a great part of their wealth, reduced the value of property, produced confusion in legal contracts, and anarchy in prices in public markets. The evils which must have resulted from the enormous depreciation of Roman coinage at several periods can only be understood by a chronological record of the principal changes, and by remembering that each issue of a depreciated coinage was an act of bankruptcy on the part of the reigning emperor."

To anyone who has studied history, it is disturbing to see the same old chapter appearing again and again. Times change, but the voters and the politicians remain the same. In early January, 1965, famed economist Dr. Melchior Palyi wrote the following piece which was carried in the Chicago Tribune. To monetary students, it was the voice of history issuing a warning for today's citizens and politicians:

"The world money system barely escaped a catastrophe in the early days of this month; and the crisis was merely swept under the rug. . . . De Gaulle moves cautiously in order to assure the cooperation of his Common Market partners. But step by step, the French plans to clean up the international currency mess are unfolding. They are opposed by a majority of nations—the debtors, including the United States and Britain, who keep losing gold and dollars. However, the creditors, who gain gold and dollars, are in the driver's seat."

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"It should be clear by this time what motivates de Gaulle's action in reducing his central bank's dollar holdings. To begin with, he sees the danger which is visible to all but the Keynesian doctrinaires: that the continued dollar outpour will lead to the loss of most of our gold and to the breakdown of the dollar. This tide he tries to stem by putting pressure on us—to induce us to do what mature people do without being forced by their creditors.

"Next, if the pressure does not help and the dollar is condemned to sink (sooner or later), he wants to minimize the losses which France would suffer indirectly by a hefty cut in the gold value of her dollar holdings.

"Lastly, and this is most significant, it is apparent that the intention is to maintain the gold value of the franc, come what may, even in the extreme case of a hefty devaluation of the dollar.

"If so, the French franc would become the world's leading currency. . . .

". . . [De Gaulle] realizes . . . how slippery the money-tinkering road is, having witnessed not less than 19 devaluations of the franc between 1926 and 1958. They were instrumental, more so than any other single factor, in the downfall of the Fourth Republic. He will do anything in his power to safeguard the Fifth Republic, his own, against a similar fate."

Over the past month the U. S. has adopted a policy of cutting off (or calling back) its dollars from Europe. Through this process, President Johnson is attempting to force the European anti-inflationists (and de Gaulle in particular) to their knees. The U. S. is saying: "All right, you want higher U. S. interest rates? You want the U. S. to stop printing paper dollars? You want to end U. S. purchases of European assets? Then suffer the consequences. We're calling in the dollars which financed your boom. Beg for them, let your tongues hang out with a thirst for the dollars which you scorned. You will take things our way or you'll watch your own economies collapse through lack of dollar currencies."

There's no doubt about it, President Johnson is calling Europe's bluff. If Europe begs for our dollars again, Johnson has won. But what if Europe says, "We'll develop our own currency. We'll survive without your dollars, and we'll develop a gold-backed currency which will be better than the dollar." Robert Marjolin, Chief Economist for the Common Market nations, recently issued a strong (I thought almost insultingly strong) statement blaming U. S. inflation for part of Europe's problems. Marjolin further stated that it was his opinion that the U. S. will not be able to control its inflation without bringing higher interest rates into play. It remains to be seen whether the U. S. continues to have the world monetary situation all its own way, or whether the voices of Europe (who are aware of the dangers of massive inflation) will decide that the only answer is direct action to defend themselves against U. S. inflation. If the latter course is fated to be, we can expect (1) continuing withdrawals of U. S. gold as Europe attempts to build up its gold reserves (which are already larger than the U. S. reserves), (2) secret planning for a new European gold-backed currency, (3) continued buying into S. African gold shares by worried European investors.

One thing is certain, however. Massive purchases of gold bullion are continuing in London, and it is reported that gold sales over the past three months have jumped from $3 million per day to double that with some frantic days producing sales in the $20 to $30 million

class. Since the London Gold Pool (which is half owned by the U. S.) purchases the total S. African and Canadian output of gold, and since the Pool shares equally in all gains and losses in gold transactions, it is certain that the unabated world hunger for gold is producing a continuing (but "hidden") drain on our gold supply. The Gold Pool regulates the price of gold in London, and efforts are made to keep the price of gold under the conversion price of $35.087 per ounce. When the price of gold is above that figure, presumably the Pool is losing gold — of which half is U. S. gold.

The price of gold (see chart in Letter 284) has been above the conversion price all year. Last week it jumped to $35.16, only 2¢ from the high of the past few years — and this despite the latest U. S. dollar offensive and despite the new British budget attempts! Thus the drain on U. S. gold continues. Who are the gold buyers? Gold hoarding by individuals is now rampant. Furthermore, many governments are purchasing gold directly through the Gold Pool (in this way they can remain anonymous purchasers). Corporations continue to purchase gold at the London Pool — often through numbered Swiss bank accounts. The barometer of the gold situation is the price of gold. At last week's price of $35.16 the barometer is saying that the monetary storm winds are still blowing.

SILVER: The silver picture was touched upon most recently in Letter 282. It is worth going into that picture in more detail now. The entire silver situation can be summed up in a single word — "mismanagement." Thirty years ago the price of silver ranged from 24¢ to 45¢ per ounce. At that time industry consumed about 20 million ounces of silver per year. The price of silver has been rising ever since. Only a few years ago Treasury Secretary Dillon allowed our Government to sell a large amount of silver at 91¢ per ounce in a vain attempt to "peg" the price. At present, the price of silver has climbed perilously close to $1.29 per ounce (this is the level at which it pays to melt silver coins down and sell the raw silver).

This issue of Dow Theory Letters might be termed a "montary issue," and in view of national and world events I believe I am justified in going heavily into monetary conditions. But first I want subscribers to read these two fascinating little clippings. These clips underscore the current drama (and chaos) in the U. S. Treasury. The first clip from the March 11 Wall Street Journal tells the story of Mr. Johnson's real choice for the Treasury, Mr. Donald Cook. Cook, an obviously far-seeing gentleman, wanted no part of the Treasury job. We wonder what happened next; did Mr. Johnson turn in desperation to Dillon and say, "All right, bring in your man Fowler. We've got to get somebody in here fast or this whole thing is going to end up as a national joke." We do not know what actually occurred, but the second clip from the new April 3 Magazine of Wall Street makes fascinating reading. Massive Governmental stupidity (I am sure) must often produce great behind-the-scenes drama.

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Donald C. Cook, long expected to take over as Secretary of the Treasury after Douglas Dillon's departure around April 1, has finally concluded he doesn't want the job. Mr. Cook, president of American Electric Power Co., is understood to have asked President Johnson that he no longer be considered for the post. He is currently aiding the White House in the quest for a successor to Mr. Dillon.

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DILLON depression is a phrase that creeps into backstage conversations within top circles, as speculation mounts whether newly-nominated Secretary of Treasury Henry H. Fowler can rectify a bad Federal fiscal situation which has been building up under Mr. Dillon. Fowler was, indubitably, the outgoing Secreary's choice to fill a corner which is now conceded to be about the "hottest" one in Washington. Now, there is suspicion that Dillon's suggestion of Fowler, for three years Under Secretary and Mr. Dillon's right hand man, was motivated by fact that the former aide could do a "cover up" job for a while, one that would at least delay a fiscal explosion of world-wide proportions. The gold out-flow mounted under Mr. Dillon threatens to become greater, while the silver coinage problem, which very plainly was allowed by Mr. Dillon to drift, hovers on the brink of chaos which may necessitate action the Administration is loathe to contemplate.

THE MAGAZINE OF WALL STREET

The U. S. silver hoard during the past few years has dropped from 2 billion ounces to 1.2 billion ounces. Meanwhile industrial consumption has risen to well over 250 million ounces of silver per year. But the crux of the problem is this: five years ago world demand of silver was about 70 thousand ounces more than world production. World demand is now running at an annual rate of around 300 thousand ounces above production. Obviously, something has got to give. Monetary students have known this for years. The U. S. Treasury has known this for years. Nothing has been done with but a single exception. The exception — over the past year the top echelon of the U. S. Treasury has suddenly been gripped by the urge to "return to private industry." Those who are fully cognizant of the silver (and gold) situation know exactly how they feel.

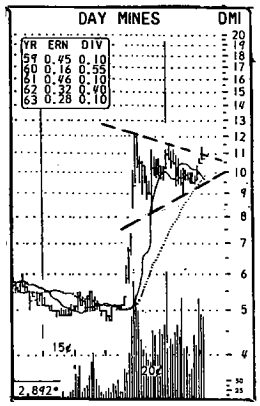
What happens next? Our new Secretary of the Treasury, Mr. Henry Fowler, has inherited the entire problem. Treasury officials are readying a silver report which will recommend certain changes to Congress. If Congress approves, they will vote in a "new system." According to some reports, the Treasury will recommend a removal of all silver from U. S. coinage. Others feel the silver content in certain or all coins will simply be lowered from the present 90% to perhaps 50% or 30%. Either way this observer sees a single result: a vast hoarding of silver coins as Gresham's Law goes into effect. The new "low-silver content" coins or "alloy coins" will have the effect of making all current silver coins either collector's items or bits of precious metal. Our current silver coins will then become investments which have a "floor" but no "ceiling." In other words, they will always be worth at least face value or silver content value or a certain value as collector's items. In the final analysis the current silver coinage can only do one thing — appreciate in value. We received a dramatic example of this process recently when the Kennedy half-dollars were issued. These coins disappeared overnight. The reason — if a collector bought them anywhere near face value he could not lose, but did stand to gain. The Kennedy coin disappearance could be repeated with all U. S. coinage over the next year or so. In fact, for many months individuals here in the West have been advertising for silver dollars (they will pay $1.10 or more for any quantity), but I am willing to bet that they now have few if any takers. The news about silver is getting out.

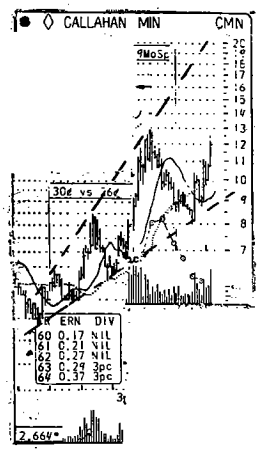
What can the Treasury do? In my opinion, they have simply waited too long to do anything intelligent now. They could have cut the silver content of our coinage years ago while releasing silver to seek its own free market price level. But they did not. Frankly, I do not see any satisfactory answer for the Treasury today. But there is one thing which will have to be done. The price of silver one way or another will have to be allowed to rise to its free-market level. It is becoming painfully obvious as the U. S. Treasury supply of silver

melts away that the U. S. cannot continue to clamp an effective ceiling on silver.

What does this mean to the investor? It suggests a rise in the silver shares over the period ahead. Many predict an ultimate climb in raw metal silver to $2 to even $4 per ounce. In a recent book, world famous metals authority Walter Lynch writes: "There is no doubt in my mind that silver at $1.29 is at the lowest price we will see during our lifetime. We are entering a period when $2 or even $3 silver will be something more than a dream. Within a maximum period of seven years silver will be a 'rare' metal commanding a much higher price than today."

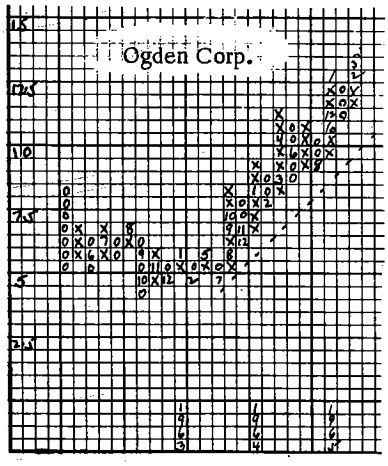
How to assume a position in silver shares: The Galena mine is the number two producer of silver in the U. S. This mine is owned by Callahan Mining and it is leased to American Smelting. Callahan has a 75% interest in the Galena lease while Day Mine has a 25% interest in the lease. This means that both Callahan and Day have a "play" in silver. Day Mines is also a gold producer and this company owns claims to over 12,000 acres in the Coeur d'Alene area of Idaho. The Idaho section is only about 50 miles square, but it constitutes the richest silver area in the U. S. Therefore, Day becomes a valid hedge on a potential rise in the price of silver.



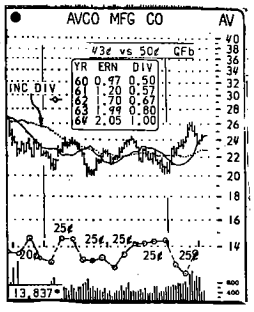


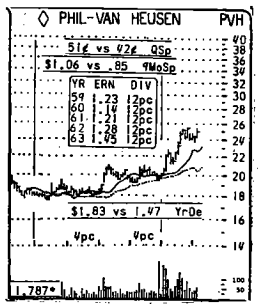
Note on the weekly chart that Callahan (CMN) has been moving up within an extraordinary flaring-type expanding triangle. Volume has been coming in on the upside. CMN appears to be in a highly speculative state, but I believe commitments here could work out well (CMN was recommended here originally in Letter 248 at 6½). Day Mines is now pushing out of a huge symmetrical triangle and volume is impressive on the upside. I realize that both Hecla and N. Y. Honduras and Rosario are higher-quality silver producers, but the technical position of CMN and Day seems to bespeak more speculative "action." (The writer has a small position in Day Mines).

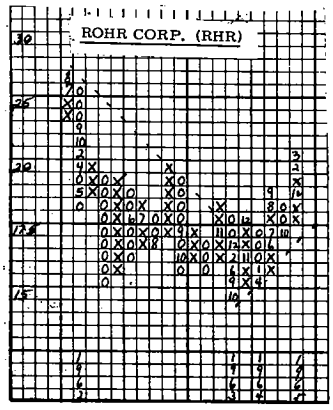
Subscribers continue to ask for "good speculations." One stock which has interested me is Ogden Corp on the Amex. In July a director bought 200 shares. In August a director bought 1000 shares. In November 2000 shares were bought, in December three officers bought 1000, 1000 and 5000. January saw a 600 share purchase, February witnessed 100 shares, a 5000, a 2000, another 5000 and a 9000 purchase. If nothing else, the officers and directors of Ogden love the company. Could they be wrong? They could, but all that consistent buying is still pretty interesting. This off-beat company deals in scrap steel metal, it manufactures loading equipment, it has a sizable foreign operation, it is trying to sell off a ship yard. The point & figure chart shows a good uptrend but nothing violent on the upside yet. The weekly bar chart shows OG climbing up a good trendline, and again the stock does not seem to be bringing in too much speculative volume as yet. Earnings are good with 1964 showing $1.11 for the year against 62¢ in 1963. The quarter ending in September shows 31¢ vs. 8¢ the year before. For those who want to speculate on a stock which is clearly bullish and one which has attracted a tremendous amount of "insider" buying, I suggest purchases of Ogden. Stop-losses should be placed at 11.

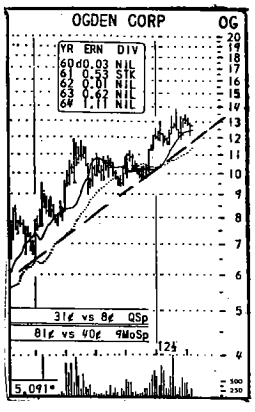


Follow-ups: In Letter 262 I recommended Rohr and Rohr convertible bonds (Rohr was then 18½). The stock has since moved over 23, and this San Diego based aerospace manufacturer behaves beautifully. The P & F chart shows a large base which will allow for a move to 28. The stock is still an attractive speculation on any dip. Phillips-Van Heusen was recommended in Letter 279 at 23. The stock gave a 4% dividend and is now 25. Apparel Manufacturers are near the top of the list of groups which are performing well. I still like PVH (the stock is written up in this week's Barron's). Avco was recommended in Letter 281 at around 24½. No action here yet, but I would continue to hold it. Avco's relative strength line is still bullish and intact, and it would not surprise me to see this stock start to move out.









LATE NOTES: Industrials closed on April 12 at an all-time high of 906.36 (Chart 1). Rails continue to lag, and it might be well to remind readers that under Dow Theory a penetration of one Average unconfirmed by the other is meaningless. The new Industrial high is "good" to see, it is historic, it makes the financial headlines, but it means nothing for predictive purposes as far as Dow Theory is concerned.

P & F charts courtesy of Chartcraft, Inc., Larchmont, New York. Small weekly charts courtesy of Quote Digest, 110 N. Lorraine, Wichita, Kansas.